CORPORATES OVER TREASURIES: UNLOCKING VALUE IN THE BARCLAYS U.S. AGGREGATE INDEX

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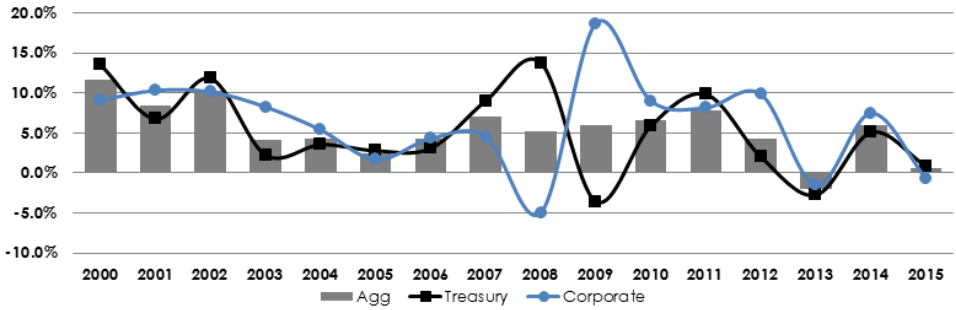
Over the last several months, we have spent a great deal of time attempting to understand what drives performance and volatility of the Barclays U.S. Aggregate Index (Agg). While we remain convinced that simply owning the Agg as an investment strategy is suboptimal, we cannot ignore that it remains one of the most benchmarked indexes in the world. In response, WisdomTree sought to create an approach that started with the same investable universe but ultimately aimed to enhance the yield of the strategy. In the remainder of this discussion, we examine how over-weighting exposure to corporate debt, one common way investors can boost yield, ultimately fared relative to U.S. Treasuries and the broader U.S. aggregate. **Fixed Income 101** For fixed income investors, the single most important determinant of a bond's total return is its yield at the time of purchase. All else being equal, if investors can boost the yield of their portfolios, their hypothetical total returns also increase. The simple reason why higher-yielding securities don't always outperform U.S. Treasuries is because credit conditions evolve over time and there is at least some risk that you may not be paid back. In exchange for assuming this risk, investors receive greater income potential. In order to boost income potential, the Barclays U.S. Aggregate Enhanced Yield Index increases weight to the higher-yielding securities in the Agg, subject to a series of constraints. Generally speaking, this results in a portfolio that is under-weight U.S. Treasuries with increased exposure to investment-grade corporate debt. Below, we show calendar-year returns of the Agg compared to returns of Treasuries[1] and corporate[2] bonds since 2000. **Agg, Treasury & Corporate Bond Total Returns**



Source: Barclays, as of 12/31/15. Past performance is not indicative of future results. You cannot invest directly in an index.

Key Takeaways While the Agg has enjoyed positive total returns for every year shown above (except 2013), returns will likely be constrained going forward unless interest rates continue to fall. While economic uncertainty has benefited Treasuries at the expense of corporates so far in 2016, we believe corporates will likely outperform once rates start to rise, given their higher starting yields. In fact, corporates have outperformed Treasuries in 9 out of 16 calendar years. Given the increasing concentration in U.S. Treasuries in the Agg over this period, corporates have also tended to outperform the Agg in 10 out of 16 calendar years, including 4 out of the last 6 since the global financial crisis. In the most recent rising-rate period of 2004–2006, corporates enjoyed a period of solid outperformance compared to Treasuries and the Agg. As shown above, Treasuries tend to outperform corporates during recessions or other periods of prolonged stress. Today, the market remains locked between two opposite forces: concerns about a marked slowdown in global growth vs. potential interest rate hikes by the Federal Reserve. In our current view, the probability of a global recession remains remote. In response, we believe a more intuitive approach to the Agg may be to over-weight the more attractive segments of the market (credit, securitized) and under-weight the most vulnerable, least appealing sector, such as U.S. Treasuries. With these principles in mind, WisdomTree helped develop the Barclays U.S. Aggregate Enhanced Yield Index, which seeks to enhance the yield of the Agg by over-weighting the higher-yielding segments of the market. Read more about WisdomTree income strategies. [1]As represented by the Barclays U.S. Treasury Index. [2]As represented by the Barclays U.S. Corporate Investment Grade Index.

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DEFINITIONS

Barclays U.S. Aggregate Bond Index, 1-3 Year : This index is the 1-3 Yr component of the U.S. Aggregate index.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Corporate debt : Bonds a company issues in order to raise money.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Credit : A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future.

Bloomberg Barclays U.S. Aggregate Enhanced Yield Index : a constrained, rules-based approach that reweights the sector, maturity, and credit quality of the Barclays U.S. Aggregate Index across various sub-components in order to enhance yield.

Investment Grade : A rating given to a municipal or corporate bond. It is a relatively favorable rating by either Moody's or Standard & Poor's indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Barclays U.S. Treasury Index : represents the performance of the U.S. Treasury component of the Barclays U.S. Aggregate Index.

Barclays U.S. Corporate Index : is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.